

## LENDING MODEL

BACKGROUND OF THE INVENTIONField of the Invention

This invention relates to a lending system including a model and an attendant procedure for facilitating the security of loans made in a stabilized currency at an economically attractive interest rate to borrowing entities intending to use the proceeds of the loan in a secondary or historically unstable economy, wherein the loan is satisfied by payment in the stabilized currency and is to a large extent protected from unstable circumstances analogous to a devaluating exchange rate occurring within the secondary economy, by establishing a reserve fund and following other requirements of the lending model and associated procedure.

DESCRIPTION OF THE RELATED ART

Even with the continued expansion of a global economy, a significant disparity between the economic stability of developed countries and underdeveloped countries continues to exist. This disparity is commonly demonstrated by the considerable difference in the cost of borrowing money, which is at least partially attributable to the political risk, inflation, fiscal policy, devaluation potential and the instability of the local currency in the secondary economies

1 associated with the various underdeveloped countries.

2 *del 93* > By way of example only, companies in Latin American  
3 countries pay a substantially higher borrowing cost than their  
4 competitors in the United States and other developed countries.  
5 Local banks in such secondary economies must pay a substantially  
6 higher interest rate to depositors in their countries in order  
7 to keep the depositing clients from changing their assets from  
8 the local currency to US dollars or other hard currencies.  
9 Therefore, borrowers at the local banking institutions have to  
10 pay their loans at a much higher interest rate than in the  
11 United States or other countries enjoying low political risks,  
12 stable economies, sound fiscal policies and reliable and a  
13 ~~stable currency.~~

14 In addition to the above there is usually the fear of  
15 accelerating devaluation as occurred in the two Mexican crisis  
16 of 1985 and 1994, which were universally recognized as the  
17 result of inappropriate economic policies. This type of  
18 economic instability is frequently present in underdeveloped  
19 countries even when the local currency thereof is relatively  
20 stable. The result, as set forth above, is a constant and  
21 significant difference in the cost of capital in the secondary  
22 economies and the more stable economies of the developed  
23 countries.

24 *del 94* > ~~Because of the differences in the cost of borrowing and~~  
25 ~~therefore the cost of doing business, a number of companies or~~

04 } other borrowing entities associated with the economies of an underdeveloped country are often times willing to take the risk of borrowing at a lower interest rate in a stable currency, such as but not limited to the US dollar. Further by way of example, the difference in borrowing costs may be between a 9.5% lending rate in US dollars versus a 22% lending rate in the local currency of a secondary economy, such as the Dominican Republic. The obvious attraction to the borrowing entity is the significant decrease in the cost of the borrow money. The willingness to assume risks by those borrowing US dollars, or other hard currencies, is usually more prevalent during periods of relative economic stability in the related secondary economy, when the local currency is stable versus the US dollar. More specifically, companies may be willing to take the risk of devaluation of the local currency, which typically is the result of an occurrence of an economically unstable event for period time.

sub 05 } However, when severe devaluation does take place, a company or other borrowing entity that has assumed loans in US dollars are suddenly faced with substantially higher debt payments, in terms of their local devalued currency, even when inflation increases local prices. This inflationary rise in prices most often does not off-set the increased obligations of the borrowing entity that must be met in US dollars, which ultimately is paid for in local currency converted to US dollars

05 > using a new, devalued exchange rate. Therefore, the risks of borrowing a hard or stable currency at a lower interest rate are realized when an economy suffers a rapid devaluation of the local currency, inflation and/or a contraction of economic growth. The resulting economic damages to the borrowing entity are normally defaulting or renegotiating loans made in the stable currency or the bankruptcy of the business or venture associated with the borrowing entity. In addition to the above and perhaps most importantly, because of the above described "devaluation risk of the exchange rate", financial institutions in the United States and other developed countries do not want to finance, through loans, numerous commercial ventures in countries characterized by high interest rates for local currency loans. As a result lending institutions in developed countries which deal in stable currencies, such as the United States, have a tendency to ignore a significant portion of the commercial lending market.

8/26 > When a borrowing and lending operation takes place, the interest rate charged should reflect the risk involved in the business. As a further example, if one borrows US dollars but invests in a project in Mexican pesos, the risk involved should reflect the risk of doing business in the Mexican economy rather than the lower cost of borrowing a stable currency from a fundamentally sound economy. This mistake is commonly made when a loan is secured in a stable currency because the interest rate

1 charged are lower, the borrowing entity taking the devaluation  
2 risk, calculates that it can assume business or commercial  
3 projects with relatively low opportunity costs of capital. When  
4 borrowing entities of this type prepare a profitability analysis  
5 using interest rates of developed countries which deal in a  
6 stable currency, conventional financial tools including "net  
7 present value" and "internal rate of return" are used. However,  
8 when the cost of doing business or making a loan is determined  
9 in terms of the lower cost of borrowing a stable currency, the  
10 results do not reflect the true financial and economic risks  
11 involved in the event of the occurrence of an unstable event in  
12 the secondary economy.

13 Normally the high interest rate in a local currency reflect  
14 the risk of doing business in that country. Risks in lending,  
15 inflation expectations, political and economic stability are  
16 common factors affecting real rates of interest in  
17 underdeveloped countries. Accordingly, when a company borrows  
18 in order to invest in a project or business, the currency  
19 borrowed is normally the same as the currency invested. That is  
20 if a company borrows in Mexican pesos the money is invested in  
21 a Mexican business. The borrowing and lending operations  
22 reflect the risk of business in the local currency of that  
23 country. If a company is importing goods from the United States  
24 to Mexico and borrows Mexican pesos in order to buy dollars to  
25 pay the foreign supplier at the peso interest rate of borrowing,

1 that company is taking the exchange rate risk into consideration  
2 with respect of the US dollar. However, if devaluation occurs  
3 it would most likely cause an increase in the Mexican prices.  
4 The devaluation will probably result in sufficiently higher  
5 prices to off-set the devaluation cost that the Mexican company  
6 is paying in the higher borrowing costs of the Mexican interest  
7 rate. The Mexican company must calculate its profitability  
8 calculations with the Mexican interest rate, there by more  
9 accurately reflecting its "net present value" and "internal  
10 ~~rates of return~~".

11 *pat* Based on the factors and risks involved in borrowing stable  
12 currencies from developed countries for use in secondary or  
13 unstable economies, there is a significant need for a unique  
14 lending system which overcomes the well recognized problems and  
15 disadvantages of the type set forth above. Such an improved  
16 system should comprise a lending model and/or procedure for  
17 making loans in a stabile currency, in a manner which protects  
18 both the lending entity and the borrowing entity, particularly  
19 when the proceeds of the loan are to be used in an  
20 underdeveloped country and/or secondary, potentially unstable  
21 economy.

#### 23 SUMMARY OF THE INVENTION

24 *pat* The present invention is directed towards a system for  
25 making secure loans and includes a lending model and an

1 associated procedure. More specifically, the lending system of  
2 the present invention is specially adaptable for making loans in  
3 a stabilized or "hard" currency, which normally represents the  
4 national currency of a developed, stable government practicing  
5 safe fiscal policies. Moreover the lending model and procedure  
6 of the system of the present invention is specifically, but not  
7 exclusively, designed for making loans of stable currency to  
8 borrowing entities that will utilize the loan proceeds in  
9 underdeveloped countries or what may be referred to as a  
10 secondary economy. The term "secondary economy" is meant to  
11 describe various economies throughout the world, which are  
12 normally associated with underdeveloped countries and which  
13 historically have a potential for fiscal and monetary  
14 instability, including inflation, devaluation, political  
15 instability, etc. Because of the aforementioned economic  
16 instability the underdeveloped countries are confronted with a  
17 considerable difference in the cost of borrowing money in the  
18 local currency associated with the secondary economy, from the  
19 cost of borrowing a stable currency, from a developed country.  
20 The high interest rates attached to loans made in a local  
21 unstable currency, reflect the risks in that country of the  
22 aforementioned unstable conditions which are common factors  
23 affecting the interest rates in such underdeveloped countries.

24 Numerous borrowing entities present or doing business in  
25 secondary economies of the type as set forth above are credit

2/27  
worthy, and of course recognize that the lending interest rate for making loans in a stable currency is significantly less than the higher interest rates for making loans in a local currency in the country or region in which they are doing business. As a further example, the difference in borrowing costs may be approximately 9.5% in US dollars versus a 22% lending rate in a local currency, such as the Dominican pesos of the Dominican Republic. Such lower interest rates of stable currency loans is of course very attractive to a business, particularly in times of economic stability in the underdeveloped country or secondary economy associated therewith. In such times, the local currency is stable versus the American dollar and many borrowing entities may be willing to take the "devaluation risk". However, the lending model and procedure of the system of the present invention overcomes a potentially disastrous result when a crisis or period of instability occurs within the secondary economy of the underdeveloped countries. During such crisis situations, it is typical for the local currency to be devalued, inflation to be rampant and the overall commercial or economic base of the underdeveloped country to contract. Accordingly, companies or other borrowing entities that have made loans in US dollars or other stable currencies, suddenly face a substantially "higher" loan payment since the company or borrowing entity in the secondary economy is most probably doing business in local currency. While the inflationary environment



1 *Mr. Gail* persists in the secondary economy, local prices increase but  
2 commonly do not offset the increased value of the loan  
3 obligation in light of a new devalued exchange rate, between the  
4 local currency and stabile currency in which the loan was  
5 consummated. In addition, a secondary economy suffering from  
6 rapid devaluation and inflation together with a contraction of  
7 the demand for goods and services, collectively affect the  
8 borrowing entity. Therefore, under such conditions it is common  
9 for a loan, existing in the stabile currency, to be defaulted or  
10 re-negotiated or, alternatively the business or borrowing entity  
11 declares bankruptcy. As a result of the above, lending entities  
12 in developed countries which enjoy a stable currency and strong  
13 economy are reluctant to assume the devaluation risk associated  
14 with granting borrowing entities in secondary economies, a  
15 stable currency loan. Accordingly a significant segment of the  
16 potential money market is lost to such lending entities which  
17 deal in a stable currency. Therefore, in utilizing the lending  
18 model and procedure of the present invention lending  
19 institutions dealing in a hard or stable currency and willing to  
20 grant loans at a first, relatively low interest rate can  
21 significantly expand their financial services and markets to  
22 secondary economies having a normally high lending interest rate  
23 and a substantially low or minimum devaluation risk of the  
24 exchange rate.

25 *Mr. Gail* The lending system of the present invention comprises a

911) lending model and associated procedure, wherein a lending entity dealing in a stable currency enters into a loan agreement with a borrowing entity for use of the loan proceeds in an underdeveloped country or secondary economy. Further, the loan agreement stipulates that the principle of the loan will be paid to the borrowing entity in a predetermined stable currency, such as US dollars, and the loan will be satisfied in the same stable currency. However, one feature of the present invention is the creation of a reserve fund for the purpose of facilitating satisfaction of the loan or more specifically partial satisfaction or payment of an amortization schedule agreed upon for the satisfaction of the loan. The aforementioned devaluation risk, which may result upon the occurrence of periods of instability in the secondary economy, is significantly reduced or eliminated since the principal of the reserve fund will be used to make up for any deficiencies or inability of the borrowing entity to make the payments in accordance with the amortization schedule.

912) As a further example, a company in the Dominican Republic has a commonly available lending interest rate of 22% whereas in the United States the commonly available lending interest rate may be at a significantly reduced rate of 10%. The company or borrowing entity wants to take advantage of the lower interest rate in the United States and thereby increase its profit. Accordingly, the borrowing entity in the secondary economy

1 <sup>a12</sup> enters into a loan agreement with the lending entity in the  
2 United States or other secure economy based entity, wherein the  
3 loan is established at a lending rate equal to or at least  
4 partially based on the commonly available lending interest rate  
5 in the United States. However, for purposes of establishing the  
6 aforementioned reserve fund a portion of the outstanding loan is  
7 amortized, by either a one time payment or a plurality of  
8 periodic payments, payable in US dollars, at the higher, local  
9 interest rate commonly available in the secondary economy.

10 <sup>a13</sup> The reserve fund is thereby derived from the difference  
11 between the higher amortization payment, made at the higher  
12 interest rate associated with the secondary economy and the  
13 amount of the lesser payment, amortized at the lower interest  
14 rate associated with the stable currency and at which the loan  
15 was actually established. The amount of the reserve fund will  
16 be predetermined and based on a number of factors including  
17 historical and current economic factors which affect the  
18 stability of the secondary economy as well as the size of the  
19 loan. Therefore, the reserve fund is established to protect  
20 both the lending and borrowing entities against the hardships  
21 resulting from severe devaluation of the local currency and  
22 contraction of the local economy by proper structuring of the  
23 amortization schedule. The amortization schedule could typically  
24 require the first 9 or 10 monthly payments, on a ten year loan,  
25 to be made to the lending entity at the higher interest rate

a1) commonly associated with the secondary economy. The excess money between the payments at the higher interest rate and the amount of payment which would be due at the lower interest rate and at which the loan was actually established, will be accumulated to build the aforementioned reserve fund to the point where the devaluation risk has been significantly reduced or eliminated in the event of economic instability or crisis occurring in the secondary economy. On a ten year loan amortized by monthly payments, a first debt service can comprise the first 9 or 10 months amortized at the higher interest rate associated with the secondary economy. Thereafter, the agreed upon amortization schedule can define a second debt service comprising a plurality of monthly or other periodic payments amortized at the lower interest rate at which the loan was truly established. It is to be emphasized that the length of the first debt service, in terms of monthly payments amortized at the higher interest rate associated with the secondary economy, may vary and is of course not limited to the nine or ten monthly payments, as indicated above. However, it is also to be emphasized that the safest application of the lending model and procedure of the present invention includes a debt service of sufficient length or being defined by a sufficient number of monthly payments, at the higher interest rate associated with the secondary economy, to overcome a "worst case" scenario in terms of the occurrence of a financial crisis. The lending model

1 <sup>612</sup> and associated procedure of the present invention also  
2 contemplates a situation where the first debt service lasts over  
3 almost the entire length of the loan. More specifically, the  
4 first debt service could comprise a plurality of periodic or  
5 monthly payments, amortized at the higher interest rate of the  
6 secondary economy and lasting over a majority, if not all, of  
7 the monthly payments until the loan is satisfy. Upon  
8 satisfaction of the loan, or at some predetermined point prior  
9 to the loans conclusion, the amount of the reserve fund is  
10 returned as profit to the borrowing entity.

11 <sup>613</sup> As part of any and all of the above scenarios, the  
12 difference in the amount of payments between amortizing the debt  
13 over the first or higher interest rate and the second or lower  
14 interest rate, serves to create the aforementioned reserve fund.  
15 However, regardless of the size of the reserve fund created, the  
16 amount of the reserve fund is eventually returned to the  
17 borrowing entity as a financial benefit or profit, either  
18 periodically over the coarse of the loan or at the end thereof,  
19 as may be predetermined and negotiated between the borrowing  
20 entity and the lending entity when the loan is established.

21 <sup>614</sup> The lending system, including the lending model and  
22 procedure of the present invention, as described in greater  
23 detail herein, may also significantly reduce or eliminate the  
24 requirement for a security deposit normally demanded by lending  
25 entities in developed countries from the borrowing entity

1 ~~9/15~~ associated with undeveloped countries, wherein the security  
2 deposit is typically equal to 100% of the amount of the loan.  
3 The reduction or elimination of such a large security deposit  
4 will no longer be necessary since the devaluation risk has been  
5 significantly reduced or eliminated by the establishment of the  
6 reserve fund. Therefore the liquid assets normally assigned to  
7 fund the 100% security deposit are not needed.

8 ~~9/16~~ When considering or determining the credit worthiness of a  
9 borrowing entity, utilizing the lending model and procedure of  
10 the present invention, a credit analysis should be based on the  
11 normally higher lending interest rate of the local currency of  
12 the secondary economy with which the borrowing entity is  
13 involved. In addition, a profitability schedule of the benefit  
14 of the borrowing entity can be determined when establishing the  
15 loan in the stable currency at a significantly lower lending  
16 interest rate.

17 ~~9/17~~ Yet another scenario which is incorporated within the  
18 spirit and scope of the present invention includes the  
19 possibility of a lending entity, dealing in a stable or hard  
20 currency and willing to provide loans at a relatively low  
21 lending interest rate, does so to a borrowing entity within a  
22 secondary economy at a somewhat higher lending interest rate or  
23 "mark-up" in fees, etc. This scenario exists primarily when  
24 there is a minimum risk of a devaluation of the exchange rate,  
25 between the stable currency and the currency of the secondary

1 ~~economy, based at least in part on historical as well as current~~  
2 ~~political and economic conditions of the secondary economy.~~

3 These and other objects, features and advantages of the  
4 present invention will become more clear when the drawings as  
5 well as the detailed description are taken into consideration.  
6

#### 7 BRIEF DESCRIPTION OF THE DRAWINGS

8 For a fuller understanding of the nature of the present  
9 invention, reference should be had to the following detailed  
10 description taken in connection with the accompanying drawings  
11 in which:

12 ~~bul a18~~ Figure 1 is a schematic representation in flow chart form  
13 ~~of at least one embodiment of the lending system of the present~~  
14 ~~invention.~~

15 ~~bul a19~~ Figure 2 is a schematic representation in flow chart form  
16 ~~of at least one other embodiment of the lending system of the~~  
17 ~~present invention.~~

18 Like reference numerals refer to like parts throughout the  
19 several views of the drawings.  
20

#### 21 DETAILED DESCRIPTION OF THE PREFERRED EMBODIMENT

22 ~~bul a20~~ The present invention is directed towards a lending system  
23 including a lending model and a procedure associated therewith  
24 for establishing secure loans between a lending entity and a  
25 borrowing entity, in a stable currency, wherein the proceeds of

1 *See* the loan are to be used in a secondary economy. For purposes of  
2 *Ans* clarity reference will be made to one or more examples wherein  
3 the stable economy is represented as US dollars, the lending  
4 entity is located in or associated directly with the United  
5 States, the secondary economy is that associated with the  
6 relatively underdeveloped country of the Dominican Republic and  
7 the local or national currency of the secondary economy is  
8 represented in Dominican pesos. It is emphasized however, that  
9 the lending system of the present invention is not limited to a  
10 specific developed country, stable currency, secondary economy  
11 or local or national currency associated with the secondary  
12 economy. Further, the lending system incorporating the lending  
13 model and associated procedure of the present invention may also  
14 be applied to lending situations which are not necessarily  
15 between a lending entity associated with a stable currency and  
16 a borrowing entity associated with a secondary economy, as will  
17 ~~be explained in greater detail hereinafter.~~

18 *See* With reference to the accompanying Figures, a lending  
19 *Ans* entity generally indicated as 10 is located in a developed  
20 country such as, but not limited to, the United States and  
21 generally indicated as 12, wherein loans are typically made in  
22 US dollars. A borrowing entity, generally indicated as 14, is  
23 located or directly associated with a relatively underdeveloped  
24 country, such as the Dominican Republic comprising a secondary  
25 economy, as explained in greater detailed herein. Both the



1 underdeveloped country and the secondary economy are  
2 collectively represented as 16. Further by way of example the  
3 commonly available lending interest rate for credit worthy  
4 borrowers will be defined as a first interest rate and will be  
5 generally referred to as 10%. To the contrary, due to the  
6 historical economic instability of the underdeveloped country  
7 and the secondary environment 16, the commonly available  
8 interest rate is 22% and will hereinafter be referred to as the  
9 ~~second interest rate.~~

10 ~~11~~ ~~12~~ ~~13~~ ~~14~~ ~~15~~ ~~16~~ ~~17~~ ~~18~~ ~~19~~ ~~20~~ ~~21~~ ~~22~~ ~~23~~ ~~24~~ ~~25~~  
11 The lending entity 10 and the borrowing entity 14 enter  
12 into a loan agreement as at 18. An important part of the loan  
13 agreement 18 is that the resulting loan between the lending  
14 entity 10 and the borrowing entity 14 will be made in the stable  
15 currency or US dollars associated with the developed country 12.  
16 Similarly, the loan will be re-paid or satisfied by the  
17 borrowing entity 14 in the same stable currency. As a further  
18 part of the loan an amortization schedule 20 is established and  
19 agreed upon. In accordance with the established amortization  
20 schedule 20, satisfaction of the loan may be made in accordance  
21 with what may be generally referred to as a first debt service  
22 and a second debt service 24 respectfully.

23 ~~24~~ ~~25~~  
24 As set forth above, in order to protect both the lending  
25 entity 10 and the borrowing entity 14 against a devaluation risk  
associated with the economic instability of the secondary  
economy 16, particularly when the loan is made and intended to

1 <sup>23</sup> be satisfied in the stable currency of the developed country 12,  
2 a reserve fund is established as at 26 in order to aid the  
3 borrowing entity 14 in the satisfaction of the loan or otherwise  
4 helping or facilitating satisfaction of the agreed upon  
5 amortization schedule, including the one or more payments  
6 associated with the first debt services 22 and the one or more  
7 payments associated with the second debt service 24. The  
8 reserve fund 26 is intended to be accessed upon the occurrence  
9 of economic instability, generally indicated as 28 or other  
10 economic factors which derogatorily affect the ability of the  
11 borrowing entity 14 to make the one or more payments associated  
12 with either the first debt service 22 or the second debt service  
13 24.

14 <sup>24</sup> Accordingly, upon the occurrence of a crisis event or a  
15 period of economic instability 28, the reserve fund 26 will be  
16 accessed and paid, as at 30, to the lending entity 10 in whole  
17 or in part, as needed, in order to accommodate the amortization  
18 schedule 20. More specifically, each or a portion of each of  
19 the payment or payments defining the first debt service 22 or  
20 the second debt service 24, provided in the amortization  
21 schedule 20, may be satisfied by the reserve fund or a  
22 proportionate amount thereof as needed. However, when the loan  
23 is completely satisfied as at 40, without the occurrence of  
24 economic instability 28 and provided that the borrowing entity  
25 14 is able to perform in terms of the amortization schedule 20

1 as provided by the first debt service 22 and the second debt  
2 service 24, the reserve fund 26 will be returned to the  
3 borrowing entity 32 as a financial benefit or profit. The  
4 borrow entity 14 is thereby given the benefit of the full  
5 financial advantage of establishing a stable currency loan at a  
6 significantly reduced first interest rate, while at the same  
7 time eliminating the devaluation risk of the exchange rate to  
8 both the lending entity 10 and the borrowing entity 14.

9 *but* Because of the important protective features offered by the  
10 *ans* establishment of the reserve fund 26, the accumulation of moneys  
11 from which the reserve fund is derived is important. It will be  
12 recalled that the loan agreement 18 specifically called for the  
13 loan to be made by the lending entity 10 to the borrowing entity  
14 14, in the stable currency, such as US dollars. Similarly, at  
15 least one embodiment of the lending system of the present  
16 invention provides that the loan agreement 18 establishes that  
17 the satisfaction of the loan will be made in the same stable  
18 currency. Importantly, the loan of stable currency will be  
19 established at an agreed upon relatively low first interest  
20 rate, at least partially based on a commonly available lending  
21 interest rate of the stable currency within the developed  
22 country or stable economy 12. However, the credit analysis of  
23 the loan should be also based on the high second interest rate  
24 of a local currency of a secondary economy. Since the terms of  
25 the loan should comply with the borrowing entity's ability to

1 ~~repay the loan within the local economic conditions of the~~  
2 ~~secondary economy.~~

3 ~~app~~ In accordance with the example that was outlined above, the  
4 first interest rate would be represented as 10%. However, in  
5 order to accumulate sufficient funds to facilitate satisfaction  
6 of the loan, as at 40, even upon the occurrence of periods of  
7 economic instability 28 within or affecting the secondary  
8 economy 16, the amortization schedule creates what may be  
9 generally referred to as the first debt service 22. The first  
10 debt service requires a single payment or alternatively, a  
11 plurality of periodic payments to be made at a second interest  
12 rate. The second interest rate is at least partially based on  
13 a commonly available interest rate for loans in the local  
14 currency of the secondary economy 16. The representative second  
15 ~~interest rate would be 22%.~~

16 ~~app~~ Therefore, the accumulation of sufficient moneys to  
17 complete the reserve fund 26 would be based on a first debt  
18 service 22 comprising one or a plurality of periodic payments  
19 based on amortization of the loan at the second, higher interest  
20 rate. The reserve fund is then derived from the difference  
21 between the higher payment amortized at the higher second  
22 interest rate and the amount of a lesser payment amortized at  
23 the lower first interest rate, at which the loan was actually  
24 established. When the amount of the reserve fund reaches a  
25 predetermined value, the amortization schedule 20 provides for

1 <sup>bl</sup> <sup>ar</sup> the instigation of the second debt service which most preferably  
2 is in the form of a plurality of periodic payments, which will  
3 amortize the remaining portion of the loan at the lower, first  
4 interest rate which, as set forth above, was the true interest  
5 rate at which the loan was established. Accordingly, during the  
6 payment of the first debt service 22, the amount of a monthly  
7 payment associated therewith which is equal to an amortization  
8 payment at the lower, first interest rate, will be applied to  
9 the loan. The excess money, or the difference between the  
10 payment amortized at the first interest rate and the greater  
11 amount or payment amortized at the second interest rate will be  
12 attributable directly to the reserve fund.

13 <sup>bl</sup> <sup>ar</sup> As set forth above the amount of the reserve fund should be  
14 predetermined and be sufficient to facilitate satisfaction of at  
15 least a portion of the amortization schedule, comprising either  
16 the first debt service or second debt service. Determination of  
17 the actual amount of the reserve fund should be based at least  
18 partially on the amount of the loan and the stability of the  
19 secondary economy. Further, in determining the economic  
20 stability of the secondary economy, both historical and current  
21 economic conditions must be considered. However, the lending  
22 model of the present invention suggests 9 to 10 monthly loan  
23 payments, as described in greater detail herein, since it is  
24 meant to cover the worst possible scenario and thereby provide  
25 added safety to both the lending and borrowing entity. For

1 ~~928~~ example, the amortization schedule can typically provide for a  
2 ten year loan amortized over a plurality of periodic payments,  
3 such as monthly payments, wherein approximately the first ten  
4 monthly payments would be based on the amortization of the loan  
5 at the second, higher interest rate. Upon the establishment of  
6 the predetermined amount in the reserve fund 26, the remainder  
7 of the monthly payments would be based upon an amortization of  
8 the loan at the lower, first interest rate, which is the true  
9 interest rate at which the loan was originally established.

10 ~~821~~ To further illustrate the advantages of the lending system  
11 of the present invention an approximate exchange rate between  
12 Dominican pesos and U.S. dollars of 16.5 to 1, will be assumed.  
13 The example will further assume a cost of borrowing at the low  
14 first interest rate of 10% of the stable currency and a second  
15 high interest rate of 22% of a local currency of a secondary  
16 economy, for a 10 year loan in the amount of US\$10 million  
17 dollars, with monthly payments. The monthly payment at 10%  
18 first interest rate is US\$132,150.74 compared to US\$206,696.88  
19 at the 22% second interest rate. A difference of 56.41%, or  
20 US\$74,546.14 per month thereby exists. The higher monthly  
21 payment amount is continually paid for a predetermined number  
22 of payments (first debt service), until the total amount of the  
23 reserve fund has been established, even though the local  
24 currency exchange rate and economic conditions of the secondary  
25 economy remain stable. Thus, the monthly difference of

1 US\$74,546.14 (\$206,696.88 minus \$132,150.74) is used to  
2 establish the reserve fund. The amount of the reserve fund  
3 becomes an additional benefit or "profit" to the borrowing  
4 entity if the reserve fund is never utilized, since the reserve  
5 fund is returned to the borrowing entity, if the secondary  
6 economy remains stable. The lending model and procedure of the  
7 present invention converts the devaluation risk of the exchange  
8 rate between the first interest rate of a stable economy and the  
9 second interest rate of a secondary economy into generally  
10 additional financial benefits and/or profits to the borrowing  
11 entity.

12 *Part 1* Other factors to be included in the lending model and  
13 procedure of the present invention comprise a variation in the  
14 number of payments of the first debt service, as well as when  
15 the amount of money accumulated in the reserve fund is returned  
16 in whole or in part to the borrowing entity. Such factors may  
17 differ, dependent on the circumstances of each loan and may be  
18 predetermined and negotiated at the time the loan is  
19 established.

20 *Part 1* It should also be emphasized that payment of the first debt  
21 service can be made in a single payment rather than a plurality  
22 of periodic payments. When a single payment is made to satisfy  
23 the first debt service 22 the difference in the amount of the  
24 payment between amortizing the loan at the second, higher rate  
25 and at the first, lower interest rate would be the basis from

1 47) which the reserve fund 26 is derived. Alternatively, the lending  
2 system, including the lending model and procedure of the present  
3 invention also contemplates a scenario wherein the first debt  
4 service, comprising a plurality of periodic payments at the  
5 second or higher interest rate, lasts over at least a majority,  
6 if not the entire loan. At the end of the loan or at some  
7 predetermined point prior to the loan being satisfied, the  
8 resulting reserve fund or a portion thereof is returned to the  
9 borrowing entity as profit. The lending system including the  
10 lending model and procedure of the present invention also  
11 includes an additional modification of this embodiment. More  
12 specifically, the additional modification comprises the pre-  
13 established or pre-negotiated amount of the reserve fund being  
14 paid as a single payment by the borrowing entity. The loan  
15 would then be amortized over a plurality of monthly or other  
16 periodic payments, all at the second higher interest rate for  
17 the life of the loan, in accordance with the first debt service  
18 as set forth above. The excess money accumulated due to the  
19 borrowing entity 14 paying all of the periodic payments at the  
20 second higher interest rate would eventually be returned as  
21 would the unused reserve fund, to the borrowing entity, upon  
22 satisfaction of the loan or at another pre-negotiated time. An  
23 advantage to the borrowing entity would be the ability to deduct  
24 the second higher interest rate payments over the life of the  
25 loan as a tax deduction or a business expense. It is again to



1 <sup>931</sup> be emphasized that the reserve fund whether established from a  
2 plurality of payments, defining the first debt service, or by a  
3 single payment in the agreed upon amount of the reserve fund,  
4 would be returned to the borrowing entity at an agreed upon  
5 time, preferably at the satisfaction of the loan. Also, in  
6 either of the above embodiments, significant tax deductions  
7 would be a benefit to the borrowing entity. This is because all  
8 of the periodic payments, regardless of when or how the reserve  
9 fund was established, would be made at the second higher  
10 interest rate. The amount of the higher interest rate on the  
11 loan would of course result in a higher tax deduction.

12 <sup>932</sup> In another embodiment of the present invention, at least  
13 partially shown in Figure 2, a slight difference may arise from  
14 the embodiment of Figure 1. As shown, the borrowing entity may  
15 be one or more banks or other lending institutions 50 located  
16 within or directly associated with the secondary economy 16.  
17 However in this embodiment, the lending entity 10 loans money  
18 directly to the one or more lending institutions 50, at the lower  
19 first interest rate. In turn, the local banks establish loans  
20 to customers 52 in the local currency and at the local higher  
21 lending interest rate, referred to above as the second interest  
22 rate. Such a modification would provide the lending entity 10  
23 with the benefit of a wider market and greater rate of expansion  
24 in that the one or more lending institutions 50 within the  
25 secondary economy 16, would have the effect of utilizing an

1 <sup>632</sup> already existing distribution network by underwriting loans to  
2 existing and/or readily available clients, as at 52. The local  
3 lending institution 50 would have a greatly increased profit  
4 base in making or under writing loans to their clients 52 in  
5 that local bank or lending institution 50 frequently borrow from  
6 local savings and loan institutions, utilizing the local  
7 currency. Naturally, in such a situation, the lending  
8 institutions 50 would normally borrow at a significantly higher,  
9 commonly available lending rate when borrowing from the local  
10 savings and loan institution. By borrowing from the lending  
11 entity 10 the lending institutions 50 would not only enjoy the  
12 benefit of receiving the loans in a stable currency but would  
13 enjoy the significantly less interest rate, referred to above as  
14 the lesser, first interest rate. More specifically, the local  
15 lending institution 50 will obtain the amount of the loan from  
16 the lending entity 10 at a significantly reduced rate. The  
17 lending institution 50 would then make one or more loans to  
18 local customers 52, in the local currency and at the  
19 significantly higher local lending interest rate, referred to  
20 above as the second interest rate. The one or more customers 52  
21 would satisfy their respective loans to the lending institution  
22 50 in the local currency and at the significantly greater second  
23 interest rate. The lending institutions 50 would thereby make  
24 additional and significant profits from the difference in the  
25 first interest rate at which the money was originally borrowed,

1 from the lending entity 10, and second interest rate at which  
2 the money was loaned out to the plurality of customers 52.


3 *Sub G33* Yet another embodiment of the lending system, including the  
4 lending model and procedure of the present invention, is further  
5 demonstrated in Figure 2, wherein one or more local lending  
6 institutions 50, located in a secondary economy 16, would make  
7 available a variety of clients 52 interested in obtaining low  
8 interest loans, in a stable currency such as a US dollars.  
9 Accordingly, the lending institutions 50 would make their  
10 respective clients 52 directly available to the lending entity  
11 10 and thereby make each of the client's 52 a borrowing entity,  
12 or a client/borrower as at 52'. The value or economic advantage  
13 to the lending institutions 50 would be in the form of a  
14 compensation package which would comprise an issuance fee, paid  
15 by the lending entity 10 for compensation in offering its  
16 client's 52, 52' to the lending entity 10. Also the  
17 compensation package would include the lending institution 50  
18 earning all the fees involved in converting the local currency,  
19 such as Dominican pesos, received as revenue by the  
20 client/borrower 52, 52' into US dollars. In addition, such a  
21 compensation package could include any interest derived from  
22 depositing the established reserve fund 26, as described with  
23 reference to the model of Figure 1, into the respective one or  
24 more of the lending institutions 50. All of the above fees  
25 and/or forms of compensation could be negotiated so as to be

1 economically feasible for the local lending institutions 50 and  
2 the lending entity 10.

3 ~~634~~ Yet another embodiment of the lending system of the present  
4 invention comprises the converting or swapping of pre-existing  
5 loans made by one or more of the lending institutions 50 into  
6 stable currency loans in accordance with the model and procedure  
7 of Figure 1. This situation would be economically feasible to  
8 the banks or other types of lending institutions 50 as long as  
9 the mark up of the local loan is less than the commissions and  
10 fees that the local lending institution 50 would earn when  
11 utilizing the subject lending system, including the lending  
12 model and procedure, as explained primarily with regard to  
13 Figure 1. If the aforementioned commissions and fees would be  
14 sufficient, it would then be feasible for the lending  
15 institution 50 to convert or swap the previously established  
16 loans with the stable currency loans incorporated within the  
17 lending model and procedure of the present invention.

18 ~~635~~ Yet another embodiment and/or modification of the lending  
19 model and procedure of the present invention comprises the  
20 application thereof for short term loans. When the loan is a  
21 short term loan, it is established at a first interest rate, as  
22 set forth above, plus a "premium interest" which serves as an  
23 additional assurance and protection for both the lending entity  
24 and the borrowing entity that the occurrence of a financial  
25 crisis and/or devaluation of the exchange rate will not affect

1 the satisfaction of the loan within the short term of its  
2 duration. These additional protections or assurances are  
3 provided since the length of the loan may or may not be adequate  
4 to establish a sufficient reserve fund in the manner set forth  
5 above.

6  Regardless of the various scenarios used in applying the  
7 lending model and procedure of the present invention, an  
8 additional benefit to both the lending and borrowing entities is  
9 the establishment of various profit or benefit schedules  
10 representing the difference between the first and second  
11 interest rate payments, for long term lending. In addition, a  
12 cost benefit analysis for short term lending may be provided.  
13 The similar schedule or cost benefit analysis may be provided  
14 when the reserved fund is based on a one payment option, instead  
15 of the first and second debt service being respectively  
16 amortized over a plurality of periodically or monthly payments.

17 Since many modifications, variations and changes in detail  
18 can be made to the described preferred embodiment of the  
19 invention, it is intended that all matters in the foregoing  
20 description and shown in the accompanying drawings be  
21 interpreted as illustrative and not in a limiting sense. Thus,  
22 the scope of the invention should be determined by the appended  
23 claims and their legal equivalents.

24 Now that the invention has been described,